



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

August 1989

THE INSPECTOR GENERAL

GEN-89-42

Dear Colleague:

The student aid arena has been the focus of legislative and regulatory activity over the last several years, much of it aimed at protecting the integrity of the Federal student financial assistance (SFA) programs by reducing or eliminating fraud and abuse in those programs. Significant effort has been and continues to be expended in seeking ways to combat systemic abuses in program administration.

We have taken an increasingly active role in the identification and redress -- prosecutive, administrative and civil -- of large-scale, systemic student aid fraud. Most of this involves institutions which, in order to gain access to SFA funds, employ deceptive recruitment practices and enroll unqualified students, who often receive little or no meaningful training in exchange for putting themselves in debt for thousands of dollars in student loans that the school leaves them ill-equipped to repay.

There are other types of fraud against the Federal student aid programs; for example, the kind perpetrated by individuals who use a variety of methods to obtain SFA funds to which they are not entitled. While the amounts thus obtained may appear small on an individual basis when compared to the large-scale operations, those amounts, when totaled, probably reach into the millions of dollars each year.

Why "probably"? Because much of this fraud goes undetected. This letter is directed to you, the officials and administrators of our nation's postsecondary educational institutions and State guarantee agencies, because you have the ability -- and, according to Federal regulation, the responsibility -- to spot and report suspected fraud against the SFA programs. Its purpose is to serve as both a reminder and a source of information that will help you meet that responsibility and enable the government to protect the integrity of the student aid programs.

BACKGROUND

The U.S. Department of Education provides financial assistance, through its student aid programs, to aid students in pursuing their education beyond the secondary level. Last year, for example, approximately 3.5 million students received loans under the Department's Guaranteed Student Loan programs (the Stafford Loan, Supplemental Loans for Students,

and PLUS programs) and about 3.2 million students received Pell grants.

While the vast majority of SFA applicants are responsible persons who will use the funds they receive for the purpose for which they are intended, the Department's SFA programs are a tempting target for unscrupulous individuals who try to exploit vulnerabilities in program administration to obtain SFA funds to which they are not legally entitled.

In order to ensure that Federal student aid funds go to their intended recipients, the Department has undertaken a number of steps aimed at the prevention and detection of student aid fraud. These activities range from programmatic and administrative initiatives, to audit and investigative efforts by the Department's Office of Inspector General (OIG). Two regulatory requirements are of particular concern to State guarantee agencies and postsecondary educational institutions, and are discussed in the paragraphs that follow.

STATE GUARANTEE AGENCY RESPONSIBILITIES

Final regulations for the Guaranteed Student Loan and PLUS programs published in the Federal Register on November 10, 1986, specify enforcement requirements with which State guarantee agencies must comply in administering their loan guarantee programs. Among these requirements are:

- 1) Adopting procedures for identifying fraudulent loan applications.
- 2) Undertaking, or arranging with State or local law enforcement agencies for, the prompt and thorough investigation of all allegations and indications of criminal or other programmatic misconduct, including violations of Federal law or regulations, by program participants.
- 3) Promptly reporting all of the indications and allegations having a substantial basis in fact, and the scope, progress, and results of the agency's investigations thereof, to the Secretary of Education.
- 4) Referring appropriate cases to State or local authorities for criminal prosecution or civil litigation.

Investigation

Section 682.410(c)(4) of the regulations (number 2 above) provides for the investigation of suspected criminal or other programmatic misconduct. If a guarantee agency employs professional criminal investigative personnel, it may fulfill this requirement by utilizing such professional staff.

If such professional staff is not available, the guarantee agency should make arrangements with appropriate State or local law enforcement agencies for the conduct of investigations. Suitable arrangements include working agreements with appropriate law enforcement agencies which specify how and when referrals are to be made, and how information regarding the status and results of investigations will be reported back to the guarantee agency. State and local law enforcement agencies appropriate for such agreements include the State attorney general's office; State police; State bureau of investigation; local sheriff's office; and city, county, and town police departments.

Reporting

Section 682.410(c)(5) of the regulations (number 3 above) provides for the reporting of all allegations and indications of criminal or other programmatic misconduct having a substantial basis in fact, and the scope, progress, and results of the investigations, to the Secretary of Education. Copies of these reports may be submitted to the Department's Office of Inspector General.

Referral

Section 682.410(c)(6) of the regulations (number 4 above) provides for the referral of appropriate cases to State or local authorities for criminal prosecution or civil litigation. If investigations are conducted by State or local law enforcement authorities rather than the guarantee agency itself, the State or local agency may make the referral. If investigations are performed by guarantee agency staff, the agency should establish procedures for making referrals.

INSTITUTIONAL RESPONSIBILITIES

On December 1, 1987, the Department of Education amended in the Federal Register regulations governing the programs authorized under Title IV of the Higher Education Act of 1965, as amended (i.e., the SFA) programs. Section 668.14 of the regulations sets forth standards used by the Secretary for determining whether an institution is capable of adequately administering the programs. One of these standards is that the school "develops and applies an adequate system to identify and resolve discrepancies in the information it receives from different sources with respect to a student's application for financial aid under Title IV, HEA programs."

After reviewing the application, under Section 668.14(g)(1), the school is responsible for referring "for investigation

any information indicating that an applicant for Title IV, HEA program assistance may have engaged in fraud or other criminal misconduct in connection with his or her application." Examples of the type of information to be reported include:

- o false claims of independent student status;
- o false claims of citizenship or eligible noncitizen status;
- o use of false identities;
- o forgery of signatures or certifications;
- o false certification (e.g., Drug-Free Workplace, educational purpose); and
- o false statements of income.

Sections 668.14(g)(2) and (3) set forth requirements for referring such information to the OIG or to the appropriate State or local law enforcement agency, and for reporting to the OIG for each calendar year all such referrals made to those agencies.

INDICATORS OF FRAUD

A number of factors have been identified through OIG audit and investigative efforts as indicators of potential fraud or other illegal acts. While in the vast majority of cases the appearance of any one of these factors can be attributed to simple error or otherwise reasonably explained, anyone handling SFA applications should be aware of them, and should alert the proper authorities if patterns are discerned or if serious questions arise.

The list below is not intended to be all-inclusive but provides a look at some of the most commonly found "red flags" that are often indicative of attempts to fraudulently obtain student aid funds.

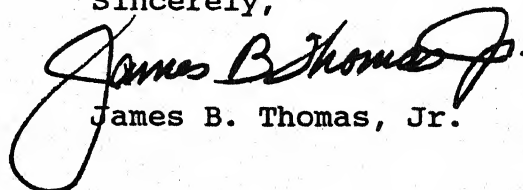
- o Inconsistency or irregularity of official signatures, certifications, or authorizations.
- o Discrepancies between application information and identification documents (e.g., driver's license, student ID card, birth certificate).
- o Undocumented claims of U.S. citizenship.
- o Photocopied or typed applications.

- o Noticeable erasures or corrections on application or check, particularly in items that should be well known to applicant.
- o Similar handwriting on several applications filed under different names.
- o Identical entries of ostensibly unique items (e.g., addresses, references, telephone numbers) on several applications.
- o Non-existent references on applications.
- o Non-residential, temporary or non-existent street addresses (e.g., post-office box addresses, "in care of" addresses).
- o Inconsistent statements by the same person.
- o Conflicting statements by different persons.
- o Request by applicant to hand-carry application to financial institutions (may denote intention to tamper with application form or other documents).
- o Request by applicant to expedite application process (may signal intention to abscond with funds and elude pursuit).
- o Undue delay in applicant's submission of documentation (may signify need for time to falsify documents or information).

REMEMBER: You can make a difference. By helping ensure that the government's student aid programs are not compromised by fraud and abuse, you are helping ensure that the limited Federal resources earmarked for those programs are used for the purpose--and the individuals--they were designed to serve.

Please feel free to write or call my office at 400 Maryland Avenue, S.W., Washington, D.C., 20202-1500, tel. (202) 453-1039. We are counting on your support and assistance in this vitally important effort.

Sincerely,



James B. Thomas, Jr.